

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL NOTE

HB 538 - SB 1168

March 20, 2013

SUMMARY OF BILL: Creates a deposit system to encourage recycling of certain beverage containers. Requires the creation of the Deposit Beverage Container Fund for which all deposits, fees, fines and penalties are deposited. Requires all deposit beverage distributors to register with the Department of Revenue (DOR) by September 1, 2013. Requires distributors to begin paying beverage container recovery fees on each beverage container beginning October 1, 2013. Requires the Underground Storage Tanks and Solid Waste Disposal Control Board with the Department of Environment and Conservation (TDEC), with assistance from the DOR to administer the program. Requires the Comptroller to conduct periodic audits of the program. Beginning March 1, 2015 each distributor is required to pay the DOR a deposit of \$0.05 for every container manufactured in or imported into the state. Full implementation of the program begins April 1, 2015 when consumers will be charged a five-cent deposit on certain beverage containers. Beverage containers will be redeemable for five-cents each.

ESTIMATED FISCAL IMPACT:

Increase State Revenue –

\$8,400,000/FY13-14/Deposit Beverage Container Fund
\$4,480,000/FY14-15/Deposit Beverage Container Fund
\$78,980,000/FY15-16/Deposit Beverage Container Fund
\$229,600,000/FY16-17/Deposit Beverage Container Fund
\$229,960,000/FY17-18 and Subsequent Years/Deposit Beverage Container Fund

Increase State Expenditures –

\$8,415,451/FY14-15/Deposit Beverage Container Fund
\$62,994,884/FY15-16/Deposit Beverage Container Fund
\$253,053,084/FY16-17/Deposit Beverage Container Fund
\$267,400,284/FY17-18 and Subsequent Years/Deposit Beverage Container Fund

Increase Local Revenue – Net Impact – Not Significant

Increase Local Expenditures – Net Impact – Not Significant

Assumptions:

- Based on information from the Container Recycling Institute data, the total number of deposit beverage containers consumed in Tennessee is estimated to be approximately 4.48 billion per year.
- Deposit collections of \$0.05 per container will begin March 1, 2015. Collections will occur for approximately 1.49 billion containers in FY15-16.
- Total deposit collections for FY15-16 will be \$74,500,000 ($1,490,000,000 \times \0.05).
- Total deposit collections will be \$224,000,000 ($4,480,000,000 \times \0.05) in FY16-17 and subsequent years.
- A beverage container recovery fee of \$0.0025 will be charged to every deposit beverage distributor for every container from October 1, 2013 until June 30, 2014; beginning July 1, 2014, the fee will decrease to \$0.001 per container; and on July 1, 2017 the fee will increase to \$0.00125 per container and remain at such level until changed by the General Assembly.
- Total recovery fee collections in FY13-14 (October through June) from 3.36 billion containers is estimated to be approximately \$8,400,000 ($\$0.0025 \times 3,360,000,000$).
- Total recovery fee collections will be approximately \$4,480,000 ($\$0.001 \times 4,480,000,000$) in FY14-15 and FY15-16.
- Recovery fees will increase to \$0.00125 per container beginning July 1, 2017. Total recovery fee collections in FY17-18 and subsequent years will be \$5,600,000 ($4,480,000,000 \times \0.00125).
- Beginning March 1, 2015, each distributor will pay a deposit of \$0.05 per container. Total collections from deposits will be \$74,500,000 ($1,490,000,000 \times \0.05) in FY15-16 and \$224,000,000 ($\$0.05 \times 4,480,000,000$) in FY16-17 and subsequent years.
- States with similar container redemption programs have experienced 85 to 97 percent redemption rates. Redemption rates will increase as more people become aware of the program.
- Bottles will be redeemed for five-cents at a rate of 75 percent in FY15-16; 85 percent in FY16-17; 90 percent in FY17-18 and in each subsequent fiscal year.
- Deposit payments will begin April 1, 2015. Approximately 1.12 billion containers will be consumed from April through June 2015.
- Additional refundable deposits will be paid for containers from other states with comparable deposit legislation. According to the DOR, an amount of containers will be deposited fraudulently every year. The number of containers from other states and fraudulent containers are estimated to equal five percent of the containers from Tennessee.
- Refundable deposits paid in FY15-16 will be approximately \$44,100,000 [$(\$0.05 \times 1,120,000,000 \text{ containers} \times 75\% \text{ redemption}) \times 105\%$].
- Refundable deposits paid in FY16-17 will be approximately \$199,920,000 [$(\$0.05 \times 4,480,000,000 \times 85\% \text{ redemption}) \times 105\%$].
- Refundable deposits paid in FY17-18 and subsequent years will be approximately \$211,680,000 [$(\$0.05 \times 4,480,000,000 \times 90\% \text{ redemption}) \times 105\%$].
- An overhead allowance of 20 percent of total refunds will be paid to redemption center processors.

- Overhead allowances paid in FY15-16 will be approximately \$8,820,000 ($\$44,100,000 \times 20\%$).
- Overhead allowances paid in FY16-17 will be approximately \$39,984,000 ($\$199,920,000 \times 20\%$).
- Overhead allowances paid in FY17-18 and subsequent years will be approximately \$42,336,000 ($\$211,680,000 \times 20\%$).
- An administrative fee will be paid to processors equal to two percent of the total refund value of containers process.
- Administrative payments in FY15-16 will be approximately \$882,000 ($\$44,100,000 \times 2\%$).
- Administrative payments in FY16-17 will be approximately \$3,998,400 ($\$199,920,000 \times 2\%$).
- Administrative payments in FY17-18 and subsequent years will be approximately \$4,233,600 ($\$211,680,000 \times 2\%$).
- According to the Department of Revenue, the will incur additional costs for manufacturing and mailing costs for stickers to indicate deposit tax information for manufacturers shipping containers into Tennessee.
- County litter grants are funded from portions of the beer barrelage tax and the bottler's gross receipts tax.
- Based upon information provided by the DOR, funding for county litter grant programs is estimated to be approximately \$5,750,000. Such amount is assumed to remain constant.
- The beer barrelage and the bottler's gross receipts tax currently fund county litter grants but will be eliminated upon passage of the bill. As a result, annual funding for county litter grant programs will be paid from gross revenue generated by the bill. This is estimated to result in an increase in recurring state expenditures of approximately \$5,750,000.
- Given that state and local option sales tax is computed on beer barrelage and bottler's gross receipts tax, state and local sales tax revenue is expected to decrease when the portions of such taxes are no longer authorized for collection. The increase in state expenditures for reimbursement of lost revenue will be \$402,500 ($\$5,750,000 \times 7.0\%$ state rate). Assuming an average local option sales tax rate of 2.5 percent, the increase in state expenditures for reimbursement to local governments for lost revenue will be \$143,750 per year ($\$5,750,000 \times 2.5\%$ local rate).
- It is assumed that the Department of Treasury will provide administration for the Beverage Container Recycling Fund utilizing existing resources without an increased appropriation or reduced reversion.
- According to TDEC, they will require, in the first year of the program, 19 additional positions will be required to implement the provisions of the bill. The recurring increase in state expenditures for these positions is \$1,287,645 (\$834,800 salary; \$239,445 benefits; \$213,400 other). The one-time increase in state expenditures related to these positions is estimated to be \$68,400 (computers, software, communications, etc.).
- According to TDEC, in the second year of the program they will need an additional three positions. The recurring increase in state expenditures for these positions is \$189,033 (\$120,000 salary; \$36,033 benefits; \$33,000 other). The one-time increase

in state expenditures for these positions is estimated to be \$7,200 (computers, software, communications, etc.).

- According to DOR, they will need 10 additional positions to implement the provisions of the bill. The recurring increase in state expenditures for these positions is \$286,756 (\$386,660 salary; \$144,216 benefits; \$103,880 other). The total one-time increase in state expenditures associated with these positions is \$58,400.
- The Comptroller will be required to conduct a management and financial audit for each of the first two years of the program and every even year thereafter. The increase to state expenditures to conduct the required audits is estimated to be \$70,000. Therefore, the increase in state expenditures of \$70,000 is assumed to be incurred in FY14-15 and FY15-16. In FY16-17 and subsequent years, the average cost is assumed to be \$35,000.
- According to the Department of Transportation (TDOT), there will be no fiscal impact to the Department. Currently, Tenn. Code Ann. §57-5-201 and §67-4-402 provide funding for the litter control program. This bill would allocate an equivalent amount from the Beverage Container Recycling Fund. Therefore, there would be no change in revenue to the department.
- Total FY14-15 expenditures: \$8,415,451 (\$1,287,645 + \$68,400 + \$634,756 + \$58,400 + \$70,000 + \$402,500 + \$143,750 + \$5,750,000).
- Total FY15-16 expenditures: \$62,994,884 (\$1,287,645 + \$189,033 + \$634,756 + \$7,200 + \$70,000 + \$143,750 + \$402,500 + \$708,000 + \$5,750,000 + \$8,820,000 + \$882,000 + \$44,100,000).
- Total FY16-17 expenditures: \$253,053,084 (\$1,287,645 + \$189,033 + \$634,756 + \$35,000 + \$143,750 + \$402,500 + \$708,000 + \$5,750,000 + \$39,984,000 + \$3,998,400 + \$199,920,000).
- Total FY17-18 and subsequent year expenditures: \$267,400,284 (\$1,287,645 + \$189,033 + \$634,756 + \$35,000 + \$143,750 + \$402,500 + \$708,000 + \$5,750,000 + \$42,336,000 + \$4,233,600 + \$211,680,000).
- All state expenditures and all reductions to state or local government revenue incurred as a result of this bill shall be reimbursed to appropriate authorities from the gross revenue generated from this act.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Lucian D. Geise, Executive Director

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